MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Another Oil Shock?

As if the economy and the financial markets didn't have enough to wrestle with, ranging from a marked slowing of the pace of business to an intractable rate of inflation to a seemingly incurable twelve-digit Federal budget deficit, recent tensions in the most prolific oil-producing regions of the Middle East threaten to compound these ills. With the price of crude petroleum leaping higher almost daily, fears have multiplied that the subsequent erosion of consumer and business confidence and spending could tilt an already enfeebled economy into recession, yet quicken the inflation rate, and enlarge the Federal deficit due to a waning of tax receipts and a hike in counter-cyclical spending.

However, notwithstanding these immediate concerns, there is one good reason to believe that the longer-run impact of today's oil market developments will be far more muted than the far-reaching dislocations associated with the "shocks" of the 1970s. While dependence on imported oil has grown considerably since then, so, too, has the economy's energy efficiency, a decided plus in containing any negative ripples which do materialize.

At this juncture, the economy hardly needs the depressing effects of an oil price runup. With real gross national product growth throttled back to a crawl, it comes as no surprise that pronounced weakness is showing up in virtually all business statistics and surveys. Private sector jobs growth is flattening, the unemployment rate is rising and consumer confidence is ebbing. At the same time, the nation's purchasing agents paint a gloomy picture of the manufacturing sector, factory orders are easing and export growth is slowing.

In this environment, it obviously wouldn't take much to tilt the economy from slow growth to no growth. By squeezing consumers' discretionary spending power, higher energy prices, combined with lackluster personal incomes growth and rising state and local taxes, could do it, delivering the coup de grâce to this aging business expansion.

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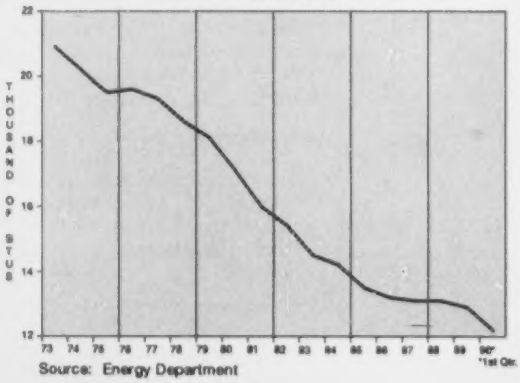
Monetary Policy Dilemma

The outlook is further clouded by the policy dilemma facing the Federal Reserve in the wake of higher energy prices. With the economy seemingly heading south, expectations abounded that easier money was on the way. Now, however, the potential for a quickening of inflation may delay additional easing moves. For although the rate of consumer inflation has been basically stuck in the 4½ percent neighborhood, and producer price inflation is somewhat more subdued, even this situation appears to be unacceptable to the Fed. And, unfortunately, it may not get better very soon. While energy prices directly account for only 7½ percent of the consumer price index, this provides little cause for complacency. For the next several months, both the direct effects of rising crude oil prices, whether at the gasoline pump or the home heating furnace, and the indirect effects on such prices as airline tickets and over-the-road freight forwarding costs, will be working through the price indexes, testing severely the Fed's inflation tolerance.

U.S. PETROLEUM AND NATURAL GAS CONSUMPTION PER DOLLAR OF REAL GNP



Source: Energy Department

If that was all, the central bank could derive some consolation from the fact that in contrast to previous oil price shocks the inflation impact this time around might be different. This is because a weakening economy will put a lid on the ability of business to pass along higher fuel costs. But, the Fed's quandry is being further complicated by a nagging buildup of compensation pressures. Notwithstanding soft economic

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conditions, average hourly earnings rose six cents in July, or at better than a seven percent annualized clip, to $10.09, and the June gain was revised higher. Escalating wages and higher oil prices heighten not only the inflation risks of monetary ease, but the recession risks of policy inertia as well. If the Fed doesn't take steps to stimulate the economy, these same two factors will further erode slumping corporate profitability, eating into business spending on inventories, capital equipment and jobs, and making any downturn that does develop that much worse.

A Fuel-Efficient Economy

From almost any vantage point, the business and price outlook has darkened. However, what nearly everyone seems to be ignoring amidst the handwringing surrounding rising oil prices, lurking supply disruptions and increased oil import dependence is that this economy has become decidedly more energy efficient in recent years. It takes far less petroleum to produce each $1 of real GNP than it did several years ago, and the nation's transportation sector, which alone accounts for two-thirds of total oil consumption, has become vastly more efficient.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/25/90)	214,237	- 659	- 3,716
New York City (8/1/90)	39,615	- 51	- 2,589
Commercial Paper (8/1/90)	542,909	- 2,574	+ 38,057

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/25/90)	319,735	- 1,416	+ 685
New York City (8/1/90)	58,476	+ 1,184	- 72

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/25/90)	1,013,296	- 1,338	+ 45,731
New York City (8/1/90)	187,676	+ 5,307	+ 11,108

Financial Markets

	Friday 8/10/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.63%	+ .11	+ .58
180-Day Bills†	7.66	+ .12	+ .39
Longest Bills†	7.67	+ .13	+ .50
Recent Issues:			
8s 7/31/92	7.95	+ .18	
8⅛s 6/30/94	8.28	+ .28	
8¾s 8/15/00 (When Issued)	8.70	NA	
8¾s 8/15/20 (When Issued)	8.80	NA	
Municipals:			
Bond Buyer—20 Bond Index* (8/9/90)	7.22%	+ .14	+ .20
Blue List Total ($ Million)	$1,140	+ $128	- $ 474
30-Day Visible Supply ($ Million)	$1,799	- $ 72	- $2,366
Total	$2,939	+ $ 56	- $2,840
Corporates:			
Moody's Aa Composite (8/9/90)	9.56	+ .15	+ .48
30-Day Visible Supply ($ Million)	$1,150	+ $200	- $2,058
Stocks:			
Dow-Jones Averages:			
Industrials	2,716.59	- 93.06	+ 32.79
Transportation	974.82	- 64.23	- 438.41
Utilities	203.09	- 6.61	- 14.47
65 Stocks	948.89	- 40.43	- 116.38
N.Y.S.E. Composite Index	184.15	- 4.67	- 8.12
N.Y.S.E. Avg. Daily Vol. for Week (000's)	192,963	- 15,545	- 7,502

*34% Taxable equivalent 10.94%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/10/90	Week Ago
Overnight	8.00%	8.00%
1 month	7.94	7.88
3 month	7.88	7.88
6 month	7.88	7.88
1 year	8.00	7.94

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/10/90)	Currency Per U.S. $	Week Ago
Belgium	32.87	32.75
Canada	1.1485	1.1511
France	5.3630	5.3310
Germany	1.5980	1.5905
Italy	1172.00	1164.20
Japan	150.13	149.50
Mexico	2856.20	2850.60
Netherlands	1.8000	1.7925
South Korea	707.26	705.27
Switzerland	1.3450	1.3515
Taiwan	26.97	26.84
U.K.*	1.8660	1.8595

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/10/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.5%	-3.4%

Take, for example, the passenger car fleet. With the gas-guzzlers of yesteryear a memory, the fleet now averages an estimated 21 miles per gallon, a better than 50 percent improvement compared with the 13½ mile per gallon average prevailing in the early 1970s and about a third more efficient than just a decade ago. What is more, newly-produced domestic automobiles are doing even better, averaging some 27 miles per gallon. This suggests that today's gasoline price hikes should have a proportionally smaller impact on the consumer's wallet than those of the 1970s and early 1980s. And, much of the same can be said for the economy in general.

As shown in the chart, it currently takes 40 percent less oil to produce each $1 of real GNP than it did in 1973, and about 33 percent less than in 1979. This trend has continued virtually nonstop since 1973, and there is little reason to think it will cease now. Quite the contrary. Today's oil market turbulence again underscores the need for enhanced conservation. Thanks to past efforts, the U.S. economy is less vulnerable to an oil "shock" now than at any time in recent memory. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/8/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	240.376	+ 2.790	+14.289
Loans to Depository Inst.	.903	- .009	+ .195
Float	1.075	+ .918	+ .478
Total Reserve Bank Credit	281.585	+ 4.074	+21.150
Treasury Deposits with Federal Reserve Banks	5.763	+ .435	+ .220
Currency in Circulation	269.548	+ 1.386	+19.974
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	230.611	+ 1.946	- 8.683
Member Bank Reserves:	**8/8/90**		
Total Reserves Held	58.832	- .205	- .678
Excess (Deficiency)	.709	- .176	- .006
Net Free Reserves	.220	- .131	+ .126
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**% Change Since Year Ago**
M1 (7/30/90)	809.8	+ 0.9	+ 3.8
M2 (7/30/90)	3,270.4	+ 0.1	+ 4.6
M3 (7/30/90)	4,056.8	- 0.9	+ 1.2
Domestic Nonfinancial Debt (1st Q'90)	9,987.4	+ 7.6	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/10/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.39%	7.29%	7.18%
* Federal Agencies	7.90	7.95	8.00
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.79	8.86
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	7.95	7.95	7.95

‡ Finance Company Paper–Prime

5- 14 days	7.93%
15- 29 days	7.85
30- 59 days	7.79
60- 89 days	7.65
90-179 days	7.54
180-239 days	7.40
240-270 days	7.40

‡* Bankers' Acceptances

Sep.	7.87%
Oct.	7.77
Nov.	7.67
Dec.	7.62
Jan.	7.58
Feb.	7.53

‡ Industrial Paper–Prime

30- 89 days	7.80%
90-120 days	7.70

†Federal Funds Effective Rate 7.94%

‡ Discount basis. *Subject to availability. † Estimated.

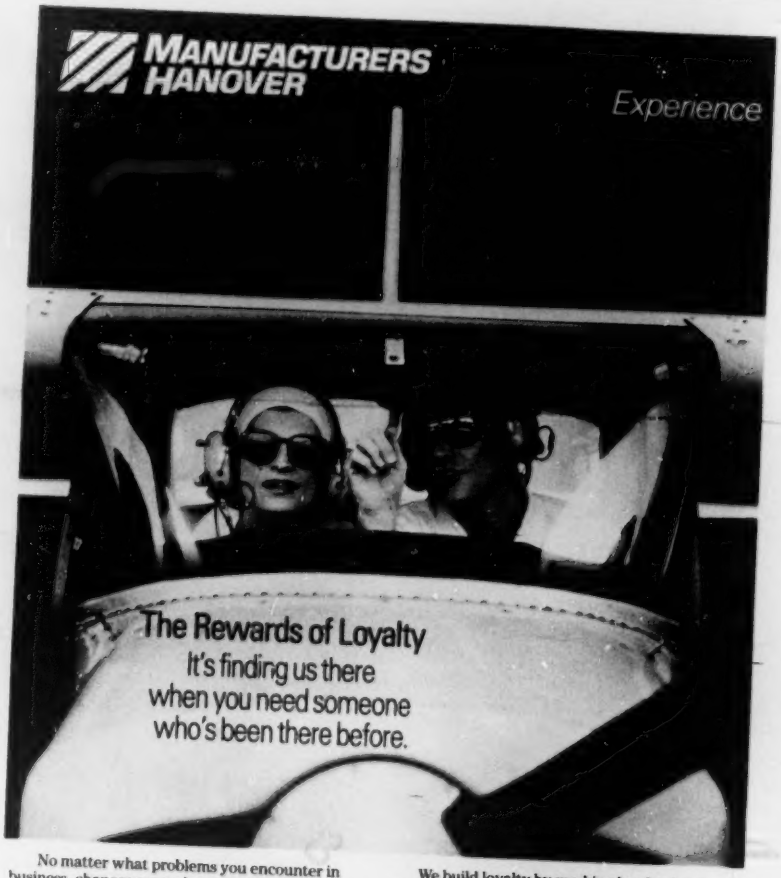
Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'90	$ 5,452	$ 5,375	$ 5,174
Gross National Product (1982 Dollars)*	2nd Q'90	$ 4,163	$ 4,163	$ 4,112
Percent Change, Annual Rate	2nd Q'90	1.2	1.7	1.6
Change in Consumer Prices*	Jun '90	6.0 %	2.4%	2.4%
Change in MH Cost of Living Index*	Jun '90	6.0 %	2.4%	3.6%
Change in Producer Prices*	Jul '90n	- 1.2%	2.4%	- 4.8%
Civilian Employment (Thousands of Persons) †	Jul '90n	117,953	118,389	117,436
Unemployment as % of Civilian Labor Force †	Jul '90n	5.5%	5.2%	5.3%
Personal Income*	Jun '90n	$ 4,640	$ 4,623r	$ 4,372r
Leading Indicators Composite Index (1967=100) †	Jun '90n	146.0	146.0r	144.0
Industrial Production Index (1977=100) †	Jun '90	109.8	109.3	108.4
Net Change in Consumer Installment Credit †	Jun '90n	$ 0.46	$ 3.65r	$ 1.63
U.S. Merchandise Trade Balance †	May '90	- $ 7.73	- $ 7.31	- $ 10.26
Plant and Equipment Expenditures*	3rd Q'90	$ 511.6(a)	$ 506.8(a)	$ 484.9
Private Housing Starts (Thousands of Units)*	Jun '90	1,177	1,205	1,414
New Construction Expenditures*	Jun '90n	$ 447.5	$ 447.6r	$ 431.6
Total Business Inventories †	May '90	$ 799.4	$ 796.1	$ 779.1
Total Business Sales †	May '90	$ 538.3	$ 533.6	$ 523.5

r-Revised. a-Anticipated.

r*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure.



No matter what problems you encounter in business, chances are we've encountered them before, and can help.

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